

Scientex Berhad

Privatising Daibochi

TP: RM5.05 (+10.5%)

Last Traded: RM4.57

Buy (ESG: ★★★)

Jeff Lye Zhen Xiong

Tel: +603-2167-9730

jefflye@ta.com.my

www.taonline.com.my

Yesterday, Scientex Berhad extended an unconditional voluntary take-over offer of up to RM345.3mn to acquire the remaining shares and warrants of Daibochi at the offer price of RM2.70/share and RM0.32/warrant respectively. We are positive on the privatisation as it is earnings accretive to Scientex and provides Scientex flexibility in integrating Daibochi to strengthen manufacturing capability, customer reach and development of sustainable packaging products. We make no changes to our earnings forecast pending completion of the take-over. Maintain Buy with an unchanged target price of RM5.05/share based on SOP valuation.

Privatisation Offer

Scientex, which currently holds 61.9% of Daibochi shares, has extended an unconditional voluntary take-over offer to acquire the remaining 124.8mn Daibochi shares not owned by Scientex i.e., 38.1% of total issued shares in Daibochi alongside all the remaining 26.1mn Daibochi warrants. The offer price is RM2.70/share and RM0.32/warrant, amounting to a total purchase consideration of up to RM345.3mn. The acquisition would be satisfied through cash payment and is expected to be completed by 4QCY21. Scientex plans to privatise Daibochi and does not intend to maintain the listing status of Daibochi following the acquisition.

Integrating Daibochi for Greater Strength

Daibochi is involved in flexible plastic packaging manufacturing business and primarily produces high-barrier laminated flexible plastic packaging for reputable multinational clients in the Food and Beverages, Fast Moving Consumer Goods as well as specialty sectors.

The privatisation is expected to provide Scientex the flexibility in integrating Daibochi business activities into Scientex group to become a formidable one-stop plastic packaging solution provider. Daibochi would be able to leverage on Scientex's widespread manufacturing facilities across Malaysia, Southeast Asia and United States alongside reinforce the strength of its product brand to reach a larger footprint of customers. Furthermore, the combined entities would also have technical synergies given that Scientex is the expert in plastic film manufacturing whereas Daibochi is strong in converting flexible plastic packaging. These synergies are expected to allow the combined entities to develop more sustainable packaging products i.e., fully recyclable mono material laminate solution, which are currently widely sought after by multinational companies.

Share Information

| | |
|----------------------------------|-------------|
| Bloomberg Code | SCI MK |
| Stock Code | 4731 |
| Listing | Main Market |
| Share Cap (mn) | 1,547.6 |
| Market Cap (RMmn) | 7,072.7 |
| 52-wk Hi/Lo (RM) | 4.87/3.0 |
| 12-mth Avg Daily Vol ('000 shrs) | 1,467.2 |
| Estimated Free Float (%) | 35.3 |
| Beta | 0.6 |
| Major Shareholders (%) | |
| Scientex Holdings Sdn Bhd | 55.7 |

Forecast Revision

| | FY21 | FY22 |
|-----------------------|------------------|-------|
| Forecast Revision (%) | - | - |
| Net profit (RMm) | 419.8 | 466.7 |
| Consensus | 422.0 | 497.1 |
| TA's / Consensus (%) | 99.5 | 93.9 |
| Previous Rating | Buy (Maintained) | |

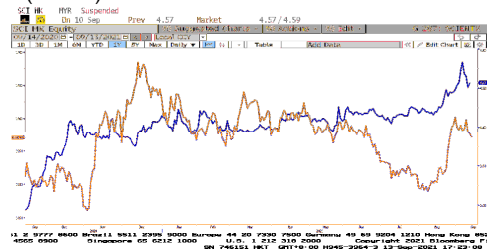
Financial Indicators

| | FY21 | FY22 |
|----------------------|------|------|
| Net debt/ equity (%) | 25.7 | 22.3 |
| ROE (%) | 15.5 | 15.4 |
| ROA (%) | 8.7 | 8.7 |
| NTA/Share (RM) | 1.6 | 1.8 |
| Price/ NTA (x) | 2.8 | 2.5 |

Share Performance (%)

| Price Change | SCIENTEX | FBM KLCI |
|--------------|----------|----------|
| 1 mth | 8.8 | 4.3 |
| 3 mth | 7.8 | (0.3) |
| 6 mth | 14.3 | (2.8) |
| 12 mth | 52.0 | 4.3 |

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Fairly Valued Offer

The consensus is expecting Daibochi's FY21 and FY22 EPS to grow at 12.5% YoY and 22.6% YoY to 16.4 sen and 20.1 sen respectively. Therefore, the purchase price of RM2.70/share represents 16.5x FY21 EPS and 13.5x FY22 EPS. Although the offer price is c.13% premium to Daibochi's last closing price of RM2.39/share, we are positive on the take-over offer as the increment of 38.1% stake in Daibochi is expected to increase Scientex's annual profit by c.RM25mn (exclude interest expense). Assuming this privatisation exercise is financed by 50% bank borrowings, it would still be earnings accretive to Scientex as borrowings at the rate of 3% per annum would only incur interest expense of c.RM5mn.

In relation to balance sheet, Daibochi has a net gearing of 0.15x as of Apr-21 and a net asset per share of 84.3 sen. Hence, the offer translates to a price to net asset of c.3.2x, higher than Scientex's current price to net asset of 2.7x.

Impact

Pending completion of the take-over, we make no changes to our earnings forecasts. Nonetheless, based on our back-of-the-envelope calculation, a 38.1% increment in the stake of Daibochi funded by 50% borrowings would result in 4-5% increase in Scientex's EPS and potentially raise Scientex fair value to RM5.30/share. Separately, Scientex's net gearing ratio is expected to increase to c.0.44x from c.0.32x currently. We believe the spike in net gearing would not exert excessive stress on the group given that operating cash flow remains robust.

Recommendation

Maintain Buy with an unchanged target price of RM5.05/share based on SOP valuation.

Figure 2: Valuation Method

| Segment | Valuation Method | Equity Value (RMmn) |
|--|------------------|---------------------|
| Manufacturing | CY22 EPS PER 20x | 3,975.6 |
| Property | CY22 EPS PER 14x | 3,924.1 |
| Equity value (RMmn) | | 7,899.7 |
| + Proceed from Warrant Conversion (RMmn) | | 443.7 |
| Total Equity Value (RMmn) | | 8,343.4 |
| Share cap (mn) | | 1,547.6 |
| + Warrant Conversion (mn) | | 103.2 |
| Enlarged Share Cap (mn) | | 1,650.8 |
| Target Price (RM) | | 5.05 |

Earnings Summary

PROFIT & LOSS

| FYE July (RMmn) | FY19 | FY20 | FY21E | FY22F | FY23F |
|---------------------|---------|---------|---------|---------|---------|
| Revenue | 3,247.4 | 3,518.6 | 3,872.1 | 4,380.9 | 4,775.9 |
| Gross Profit | 683.9 | 804.9 | 833.2 | 922.3 | 970.4 |
| EBITDA | 554.1 | 656.9 | 692.8 | 762.5 | 806.9 |
| EBIT | 461.8 | 549.5 | 580.4 | 642.8 | 681.8 |
| Reported PBT | 450.6 | 544.3 | 580.0 | 644.5 | 687.4 |
| Reported net profit | 333.7 | 390.1 | 419.8 | 466.7 | 496.4 |
| Adj. net profit | 354.9 | 418.7 | 419.8 | 466.7 | 496.4 |
| Basic EPS (sen) | 21.6 | 25.2 | 27.1 | 30.2 | 32.1 |
| Adj. EPS (sen) | 22.9 | 27.1 | 27.1 | 30.2 | 32.1 |
| GDPS (sen) | 6.7 | 7.7 | 8.3 | 9.0 | 10.0 |

CASH FLOW

| FYE July (RMmn) | FY19 | FY20 | FY21E | FY22F | FY23F |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| PBT | 450.6 | 544.3 | 580.0 | 644.5 | 687.4 |
| Adjustments for: | | | | | |
| Depreciation of PPE | 92.3 | 107.4 | 112.4 | 119.7 | 125.1 |
| Finance costs | 15.5 | 16.3 | 13.8 | 14.4 | 13.6 |
| Others | 1.2 | 5.3 | (13.4) | (16.1) | (19.3) |
| Op profit before WC | 559.6 | 673.3 | 692.8 | 762.5 | 806.9 |
| (+/-) in inventories | 20.8 | (22.1) | (34.2) | (51.0) | (39.6) |
| (+/-) in receivables | (35.4) | 64.0 | (106.5) | (107.9) | (83.8) |
| + /(-) in payables | 17.0 | 15.0 | 102.7 | 95.6 | 74.2 |
| - in development properties | 84.1 | 93.6 | 96.8 | 118.2 | 124.7 |
| Income Tax Paid | (88.2) | (106.0) | (134.4) | (149.7) | (159.5) |
| CFO | 557.0 | 715.3 | 617.3 | 667.7 | 722.9 |
| Purchase of PPE | (87.6) | (134.4) | (150.0) | (150.0) | (150.0) |
| Others | (211.1) | (346.5) | (500.0) | (350.0) | (350.0) |
| CFI | (298.6) | (480.9) | (650.0) | (500.0) | (500.0) |
| Net term loans | 15.5 | (32.5) | 50.0 | 50.0 | 50.0 |
| Dividend paid | (100.4) | (103.2) | (118.7) | (129.0) | (129.0) |
| Finance costs paid | (29.8) | (27.3) | (13.8) | (14.4) | (13.6) |
| Others | (58.3) | 84.1 | - | - | - |
| CFF | (173.0) | (78.9) | (82.4) | (93.4) | (92.6) |
| Net Cash Flow | 85.3 | 155.6 | (115.2) | 74.3 | 130.3 |

BALANCE SHEET

| FYE July (RMmn) | FY19 | FY20 | FY21E | FY22F | FY23F |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| PPE | 1,247.8 | 1,322.6 | 1,360.2 | 1,390.5 | 1,415.3 |
| Deferred tax assets | 25.3 | 19.0 | 19.0 | 19.0 | 19.0 |
| Goodwill | 293.7 | 338.1 | 338.1 | 338.1 | 338.1 |
| Others | 842.2 | 1,097.1 | 1,513.7 | 1,761.6 | 2,006.1 |
| Non-current assets | 2,409.0 | 2,776.7 | 3,230.9 | 3,509.1 | 3,778.5 |
| Property dev. costs | 384.8 | 340.4 | 340.4 | 340.4 | 340.4 |
| Inventories | 321.2 | 354.0 | 388.2 | 439.2 | 478.8 |
| Trade & Other receivables | 730.8 | 714.9 | 821.3 | 929.2 | 1,013.0 |
| Tax recoverable | 4.1 | 1.2 | 1.2 | 1.2 | 1.2 |
| Cash and equivalents | 257.6 | 413.2 | 298.1 | 372.4 | 502.7 |
| Current Assets | 1,698.5 | 1,823.7 | 1,849.2 | 2,082.4 | 2,336.1 |
| Assets | 4,107.5 | 4,600.4 | 5,080.1 | 5,591.5 | 6,114.6 |
| Borrowings | 269.8 | 357.3 | 407.3 | 457.3 | 507.3 |
| Retirement benefits | 36.4 | 39.0 | 39.0 | 39.0 | 39.0 |
| Deferred tax liabilities | 72.5 | 89.9 | 89.9 | 89.9 | 89.9 |
| Others | - | 5.3 | 5.3 | 5.3 | 5.3 |
| Non Current Liabilities | 378.8 | 491.6 | 541.6 | 591.6 | 641.6 |
| Borrowings | 704.0 | 683.7 | 683.7 | 683.7 | 683.7 |
| Trade & other payables | 597.2 | 624.5 | 727.2 | 822.8 | 896.9 |
| Others | 28.5 | 45.0 | 45.0 | 45.0 | 45.0 |
| Current liabilities | 1,329.7 | 1,353.2 | 1,456.0 | 1,551.5 | 1,625.7 |
| Share capital | 685.8 | 691.8 | 691.8 | 691.8 | 691.8 |
| Reserves | 1,539.2 | 1,869.6 | 2,170.8 | 2,508.5 | 2,876.0 |
| Shareholders' Funds | 2,225.0 | 2,561.4 | 2,862.6 | 3,200.3 | 3,567.7 |
| MI | 173.9 | 194.3 | 220.0 | 248.1 | 279.6 |
| Equity | 2,399.0 | 2,755.7 | 3,082.6 | 3,448.4 | 3,847.3 |
| Equity & Liabilities | 4,107.5 | 4,600.4 | 5,080.1 | 5,591.5 | 6,114.6 |

FINANCIAL RATIOS

| FYE July (RMmn) | FY19 | FY20 | FY21E | FY22F | FY23F |
|--------------------|------|------|-------|-------|-------|
| P/E (x) | 19.9 | 16.9 | 16.8 | 15.2 | 14.2 |
| P/BV (x) | 3.7 | 3.2 | 2.8 | 2.5 | 2.2 |
| Dividend yield (%) | 1.5 | 1.7 | 1.8 | 2.0 | 2.2 |
| ROE (%) | 17.9 | 17.5 | 15.5 | 15.4 | 14.7 |
| ROA (%) | 9.5 | 9.6 | 8.7 | 8.7 | 8.5 |
| EBIT margin (%) | 14.2 | 15.6 | 15.0 | 14.7 | 14.3 |
| Net margin (%) | 10.9 | 11.9 | 10.8 | 10.7 | 10.4 |
| Gearing (x) | 0.3 | 0.2 | 0.3 | 0.2 | 0.2 |

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

| | Environmental | Social | Governance | Average |
|----------------|--|---|---|---------|
| Scoring | ★★★ | ★★★★ | ★★★ | ★★★ |
| Remark | Visible efforts in tracking and managing alongside promoting recycling awareness. However, score is muted due to often association of plastic packaging towards environmental pollution. | Notable initiatives to spearhead innovation over sustainable packaging materials and developing affordable housing. Besides, community enrichments programmes and employees' trainings are performed regularly. | The board is represented by 50% independent directors yet only has 1 female director. Scientex has targeted dividend payout of 30%. | |

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Tuesday, September 14, 2021, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my